KKR & Co. Inc.
Fourth Quarter 2023 Earnings
February 6, 2024

<u>Presenters</u>
Craig Larson, Partner & Head of Investor Relations
Rob Lewin, Chief Financial Officer
Scott Nuttall, Co-Chief Executive Officer

<u>Q&A Participants</u>
Craig Siegenthaler – Bank of America
Alex Blostein – Goldman Sachs
Glenn Schorr – Evercore
Bill Katz – TD Cowen
Brian McKenna - JMP Securities
Finian O'Shea – Wells Fargo Securities
Patrick Davitt – Autonomous Research
Steven Chubak – Wolfe Research
Brian Bedell – Deutsche Bank
Ben Budish – Barclays
Michael Brown – KBW
Michael Cyprys – Morgan Stanley

Operator
Ladies and gentlemen, thank you for standing by. Welcome to KKR's fourth quarter 2023 earnings conference call. During today's presentation, all parties will be in a listen-only mode. Following management's prepared remarks, the conference will be opened for questions. If you would like to ask a question at that time, please press * 1 on your telephone keypad, and a confirmation tone will indicate your line is question queue. You may press * 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your hands before pressing the keys.

So that we may address questions from as many participants as possible, we ask you limit yourself to one question. If you have additional questions, you may re-queue and, time permitting, those questions will be addressed. If anyone should require operator assistance during the conference, please press * 0 from your telephone keypad. Please note, this conference is being recorded.

I'll now hand the call over to Craig Larson, Partner and Head of Investor Relations for KKR. Craig, please go ahead.

Craig Larson

Thank you, operator. Good morning, everyone and welcome to our fourth quarter 2023 earnings call. This morning, as usual, I'm joined by Rob Lewin, our Chief Financial Officer, and Scott Nuttall, our Co-Chief Executive Officer. We'd like to remind everyone that we will refer to non-GAAP measures on the call, which are reconciled to GAAP figures in our press release, which is available on the Investor Center section at kkr.com. And as a reminder, we report our segment numbers on an adjusted share basis.

This call will contain forward-looking statements, which do not guarantee future events or performance. Please refer to our earnings release and our SEC filings for cautionary factors about these statements. And as a reminder, our earnings release in our financial reporting for Q4 is consistent with past quarters. Beginning in Q1 of 2024, our earnings release will reflect the segment and financial metric changes we announced on November the 29th.

Turning now to our numbers for the quarter. We're pleased to be reporting strong fourth quarter results, with Fee Related Earnings per share of $0.76. This is a record figure for KKR, up 21% from Q3 2023, as well as Q4 of 2022. After-tax Distributable Earnings came in at $1.00 per share. New capital raised in the quarter was $31 billion, which is also particularly strong. So overall, a really solid quarter for us.

I'll begin this morning by walking you through our financials in a little more detail. So management fees in the quarter were $785 million. That's up 3.4%, compared to just last quarter, with growth across all of our business lines. And comparing full year '23 to 2022, management fees grew 14%. We reported double-digit percentage annual growth in our management fees for several consecutive years now.

Net transaction and monitoring fees were $264 million in the quarter. Capital markets transaction fees, in particular, were quite strong in Q4, with $225 million in revenue. That was driven by an increase in investment activity and financing transactions at several of our PE and Core PE portfolio companies. So in total, fee related revenues for the quarter were $1.1 billion, up 17% on a year-over-year basis, so – compared to Q4 of 2022.

Turning to expenses – fee related compensation, as usual, was at the midpoint of our guided range, at 22.5% of fee related revenues for the quarter, as well as for the year. Other operating expenses were $156 million. So in total, Fee Related Earnings were $675 million, or $0.76 per share. As I mentioned just a moment ago, this was a record FRE quarter for us. And this growth really highlights, in our view, the continued strength, as well as the diversification that you're seeing across the firm. Our FRE margin in the quarter came in at 63%, and on a per share basis, FRE was $2.68 for the year.

Turning now to realization activity. For the quarter, we generated $411 million of realized performance income. This was driven by multiple successful sales across our traditional private equity and Core businesses, with realized incentive fees driven by Marshall Wace in the fourth quarter. Realized investment income in the quarter was $147 million. So together, monetizations were $558 million. In total, asset management operating earnings were $970 million.

Moving to our insurance segment – performance continued to be strong in the quarter, with $231 million of pre-tax earnings. That's up 10%, quarter-over-quarter. This was the result of stronger net inflows across both the institutional and individual channels, as well as variable investment income from the sale of a solar developer that generated $16 million of insurance segment, pre-tax operating earnings. So in total, After-tax DE was $888 million, or $1.00 per share. In comparison with the prior quarter, that figure was up 14%.

Next, turning to investment performance – you can see this on page 7 of the earnings release – the private equity portfolio appreciated 3% in the quarter and 16% in the year.

In real assets, the opportunistic real estate portfolio was down 1% in the quarter and down 2% for the year. Infrastructure was up 5% in the quarter and up 18% for the year. So very strong broad performance across our infrastructure platforms.

And in credit, the leverage credit composite was up 3%, and the alternative credit composite was up 2%. And over the year, performance here was up 14% and 10%, respectively.

And finally, consistent with our historical practice, we are intending to increase our annual dividend, from $0.66 to $0.70 per share, which we anticipate will go into effect alongside first quarter 2024 earnings. And with that, I'm pleased to turn the call over to Rob.

Rob Lewin
Thanks a lot, Craig. And good morning, everyone. First, looking at our key operating metrics – new capital raised totaled $31 billion for the quarter. These results are quite strong and encouraging for us, as we head into 2024. Credit and liquid strategies made up about two thirds of the capital we raised this quarter, as our business has grown with Global Atlantic as a significant partner. GA in particular had record inflows in the quarter, both overall and specifically from the individual channel. So activity here continues to be very strong.

Block activity at GA is also active. As you know, the MetLife block closed in the quarter and the Manulife block transaction is expected to close sometime in the first half of 2024. And similar to prior blocks, GA continues to be very capital efficient here, contributing approximately 25% of the equity in both transactions, with 75% of the capital coming from Ivy vehicles and additional co-investors, so 75% from third parties where we can earn management fees and have the opportunity for performance income, as well.

Over the past year, new capital raised totaled right around $70 billion. And looking post-12/31, we just announced the final close in Asia Infrastructure II at approximately $6.4 billion, over 65% larger than the previous fund. Of note, more than half of the capital came from new investors to the Asia Infrastructure platform. With this successful fundraise, we are clearly the largest infrastructure fund in the region, enhancing our Asia positioning more broadly. And as we look out over the next 12 months and into 2025, a number of our flagship funds will be raising capital as well. So we continue to expect an acceleration in our fundraising from here.

Turning to capital invested, we deployed $16 billion in the quarter and $44 billion for the year. Capital invested was really diversified across private equity, real assets, and credit and liquid strategies in the year, as U.S. private equity and Core Private Equity deployment rebounded in the quarter. Of particular note, we made investments in three take-private transactions in Q4. And with almost $100 billion of uncalled capital, we continue to be well positioned for the deployment opportunities that are ahead.

I wanted to briefly shift now to a reflection on our progress through the course of 2023. Our assets under management now total $553 billion. That's up 10% compared to the end of 2022, with sizable capital raised in the past year. Fee paying AUM now stands at almost $450 billion. Given our consistent growth in fee paying AUM, management fees increased 14% in 2023, with line of sight of future growth from approximately $40 billion of committed capital that becomes fee paying as it’s invested, or when it enters its investment period. And that's at a weighted average rate of just over 90 basis points.

And while realized performance and investment income was more muted in 2023, given the environment, our forward visibility has increased meaningfully year-over-year. Total embedded gains were $12.3 billion at year end. That reflects embedded gains on our balance sheet, plus gross unrealized carried interest. This was up almost 40%, compared to Q4 of 2022. The opportunity for future investing revenue remains robust. And strategically, we made a lot of progress in 2023.

As you likely know, we announced 4 key initiatives towards the end of November. As an update, on January 2nd, we closed on our acquisition of the remaining stake in Global Atlantic for approximately $2.6 billion in cash. We believe this acquisition will create more value for policyholders and shareholders, and are excited to unlock future potential together.

Concurrent with the closing of GA, we have created a new strategic holdings segment, which you will see in our Q1 2024 earnings release. Here the segment operating earnings will be driven by cash dividends from our Core PE portfolio.

We also revised our compensation ratios, which similarly will be reflected in our Q1 financials, delivering more FRE to our shareholders, and driving even more alignment between our compensation model and the outcomes of our clients.

Combining these aspects, we will be introducing a new reporting framework that will better highlight our business model. This will include a new financial metric, total operating earnings, which represents our more recurring forms of income. Prior to our next earnings call, we will provide recast financials to help you further understand the various key metrics.

As a reminder, we do expect these announcements to be accretive to all of our per share metrics. And together with the confidence and current visibility we have, it is what allowed us to increase our 2026 FRE per share target to $4.50-plus per share. In 2023, we generated $2.68 per share of FRE. So our expectation is for a lot of growth from here.

Given these four announcements, paired with the existing growth engines we have, we believe that we are well set up to drive meaningful scale. The opportunities we have across asset management, insurance, and strategic holdings are multi-fold.

Turning first to our asset management business – there remains a lot of upside here, with multiple drivers of growth. We have a lot of younger strategies that are just beginning to scale. We started 25 or so investing businesses through the past decade alone, and many are now starting to inflect. We are in asset classes and geographies with massive end markets – Asia, infrastructure including climate, and credit are all great examples.

And as a reminder, we only want to be competing in areas with large addressable markets and where we have conviction that we can be a top-three player. We are in the early days of tapping into the private wealth end market. We've had early success in our K-Series suite of products, with a tremendous amount of opportunity that is still in front of us. With these growth avenues, along with our strong track record, talent, and the trust that we've built with our clients, we feel that we could double our asset management business from here. And that's without starting anything new.

Second, we have a meaningful opportunity in insurance with our partnership with Global Atlantic. Insurance is a very powerful contributor to our business. GA has already created a lot of value, going from $72 billion of assets under management at our announcement of the initial transaction in July of 2020, to over $170 billion of assets under management today, including the pending Manulife block deal. We have a strong opportunity to unlock even more value, together, in investing, product development, global expansion, private wealth distribution, and capital markets. And we are still in the very early stages of our partnership.

And finally, number three, strategic holdings, where our opportunity is highly differentiated. This segment leverages all of our people, capabilities, and our collaborative culture. As a result, we are uniquely positioned to capitalize on what we believe is a huge, addressable market. And that's in addition to the current visibility we already have to drive net dividends in this segment of $300-plus million by 2026, and $600-plus million by 2028.

In summary, we are incredibly well positioned as a firm. And we really don't think there are many companies, in our industry or others, that have the type of visibility that we have for long-term growth. We have a high level of confidence that we can meaningfully grow all three of our business segments – asset management, insurance, and strategic holdings.

With that, we are excited to announce we are going to host an Investor Day in New York on April 10th. Given the November strategic announcements and all of the opportunities across our firm, we thought it would be timely for you to hear directly from our senior leaders. We will provide additional detail in the coming months, and hope that you will join our broader team as we discuss our outlook and these opportunities.

With that, Scott, Craig, and I are happy to take your questions.

Operator
Thank you. We will now be conducting the question-and-answer session. If you would like to ask a question, please press * 1 from your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press * 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the * keys. So we may address questions from as many participants as possible, we ask that you please limit yourself one question. If you have additional questions, you may re-queue and, time permitting, those questions will be addressed.

One moment, please while we poll for questions. And our first question today will be from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Good Morning Scott and Rob, and hope you're both doing well. We were looking for an update on fundraising for your three largest flagships. So we have Global Infra V, with IV that's already 60% invested. It's higher when you look at the committed. In Asia, V, and North America XIIII, which are both over 40% now.

So how should we think about the timing of these fundraises, given the commitment levels and AUM targets, given the sizes of prior funds. They're all large funds. And more importantly, how should we think about the FRE ramp from these new funds, less step-downs from the last vintages?

Craig Larson
Good morning, Craig, it's Craig. Why don't I start on that? First, look, one of the things that runs through our mind, as it relates to the trajectory of new capital raised, and you would have heard this in the prepared remarks from Rob, relates to the topic exactly as it relates to our flagship strategies. So when you look at the largest fund complexes within our firm – so Americas, Europe, Asia PE, Core PE, infrastructure – less than $1 billion of the capital that we raised last year, we raised $70 billion in total, less than $1 billion of that came from those strategies. And if you look over '22 and '23, we raised round numbers, $150 billion of new capital and around $6 billion came from those flagships.

And so as we think about '24 and '25, we think that that's going to look different. And so we are actively fundraising for our infrastructure strategy, and do expect to launch fundraising for our

Americas private equity strategy later in the year, with Asia likely a 2025 initiative for us. On the deployment numbers you mentioned, those numbers are always a little understated.

Remember, if we have platform investments, etc., that capital is going to be spoken for, or if there happens to be capital drawn under the line, that's going to be paid back inside of 180 days, again, that capital will be additive. So those deployment numbers always look a little more understated, relative to how we think of that positioning.

And then I think there's a couple of other points here. The next one would relate to scaling. We mentioned in our press release that we had the final closes on our Next Gen Tech III and Impact strategies. We had nice scaling in those strategies compared to their prior vintages. Again, Rob talked about the good news, as it relates to Asia Infrastructure for us. We do expect scaling in our wealth strategies alongside of that.

And then finally, we feel like we have a lot of momentum at Global Atlantic, both in the individual, as well as the institutional channels. So I think the opportunities that we see for new capital raised and, in turn, management fee growth, is really an attractive part of our positioning, with the flagships certainly being an important part of that.

Rob Lewin
Good morning, Craig, it's Rob. I'll pick up as it relates to your question on FRE. When you look at some of these big flagships that will be in the market, and their predecessor funds, they don't have big step-downs in fee rates, as they transition to post-investment period. In addition to that, when you think about the runoff, a lot of the runoff from investments is probably going to come from two funds prior and three funds prior, those funds close out.

But maybe, kicking it up a level, if you think about where we are today and where we're going – and I hit this in the prepared remarks – we're at $2.68 of FRE per share. And we've guided three years from now, we have an expectation of being at $4.50-plus per share. And so in order to get there, our expectation is we're going to have a lot of management fee growth, and the flagships, on a net basis, will be a part of that story.

Scott Nuttall
Yes, the only thing I would add, Craig, is I think our overall view on fundraising is quite optimistic. I mean, Craig Larson mentioned it, but the $150 billion we raised for 4% of that have come from flagships, is a pretty low number – speaks to how we've been scaling the diversification of the firm. And as you know, a number of our strategies are kind of in this nice part of the inflection curve – Funds II, III, IV, where we can see a significant amount of growth.

So you're absolutely right to point out the flagships are coming back at what we think is going to be a really good time. But we also have 22 of our 30 strategies that are coming to market in the next 12 to 18 months, we put in that younger category – Fund I, II, III, open-ended, these newer strategies. And you can see it – Asia-Infra, up 66%, tech growth was up 30%. Our Impact fund doubled, even in the environment that we saw over the last couple of years. Yet, on top of that, private wealth, GA, Asia – speaks to the optimism that we see kind of regardless of what's happening with the backdrop.

Craig Siegenthaler
Thank you.

Operator
Our next question is from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Alex Blostein
Hi. Good morning, everybody. Thanks for the question, as well. I was hoping you could start with just building on your prior comments around expansion in the wealth channel. You mentioned you're seeing quite a bit of success – early days only, a couple of quarters in some of these platforms. So maybe a little bit about what products you expect to be out in the market with over the course of this year, how many platforms you're on, etc.

But also, I guess more importantly, I believe in the past, your targets for 2026 on FRE and DE really did not include a whole lot of contribution from these initiatives. So maybe just kind of confirm that, and what do you think those initiatives could ultimately contribute over time?

Craig Larson
Hey, Alex, it's Craig. Why don't I start? Thanks for that. And just stepping back and level setting for everyone – so as of 12/31, around $75 billion of our assets under management are from individuals. And that number does not include policyholders of Global Atlantic. So you could argue that that $75 billion, if anything, is understated, as it relates to the presence and the activities we have with individuals, broadly. Now most of that $75 billion are from high net worth and ultra-high net worth individuals, as well as family offices that have invested in our funds and strategies.

And in terms of our fundraising in total, a double-digit percentage of our new capital raised, historically, has typically come from individuals. So it's been a healthy part of that fundraising activity. Now back to your question, most specifically, most recently, we've introduced what we call our K Series suite of products. And so these are funds and strategies that are really designed and tailored specifically for wealth investors.

So K-INFRA and KIF are the U.S. and non-U.S. vehicles focused on infrastructure. K-PRIME and K-PEC are the U.S. and non-U.S. vehicles focused on private equity. We launched both private equity and infrastructure only midway through 2023. And with those products in real estate and credit on top of that, as well as our private BDC soon to be launched– of that $75 billion of wealth, around $6.5 billion of that is from these K-Series suite of products.

Now a year ago, that was $2.4 billion. So we're in the early days, but we feel really good about the progress from here. And as we look at some of the underlying statistics, that's particularly true, as it relates to infrastructure and private equity, which are newer asset classes for more mass affluent investors. As we've mentioned historically, we're raising about $500 million a month as we look at the K-Series suite. And so it feels like reception and interest and our momentum continues to feel really good. And to your point, we do expect to see an acceleration in the number of platforms in the first half of '24.

So it's great progress. But I think to us, even the more interesting part is really that long-term, secular dynamic, because mass affluent individual investors historically have not had an easy way to access these types of products and strategies. And so over the coming years, if we're correct, and you start to see allocations go from the low single digits to the mid-single digits, that literally is trillions of dollars that have the potential to move to alternative products.

And when we think of how we're positioned given our brand, our track record, the investments that we've made in distribution and marketing, our ability to product-innovate, we feel really well positioned to be a winner in the space over the long term.

Rob Lewin
Alex, just as it relates to your question on our 2026 targets – historically, we haven't included much of anything, as it relates to private wealth. As we look forward, given some of the early success that Craig just went through, we do see some contribution coming over the next few years, across the number of different investing businesses that we have. But – and Craig just hit on it at the end, the real opportunity we see, as we do long-term financial modeling, is really in that post-2026 area, between 2026, '28, as we continue to ramp. That's where you're going to start to see a real inflection and much more material contribution to our P&L.

Alex Blostein
Yep. Thanks very much.

Operator
Our next question comes from the line of Glenn Schorr with Evercore. Please proceed with your question.

Glenn Schorr
Thank you. So the question is that relates to the banks, and I see two-way activity. I see – right now, I see a little bit more banks coming back into the leveraged loan space, and you see some movement in them getting into providing some services in private credit. Yet at the same time, we know capital requirements are going up in private credit world, and more asset-backed opportunities are coming your way. So I just wonder if you could talk a little bit about that dynamic, and what specifically you're doing on the asset-backed side to position for what we all think is a lot of growth ahead? Thanks.

Craig Larson
So Glenn, why don't I start? And thanks for asking, because these are really important, secular drivers, really, as it relates to both businesses. So as a reminder, as of year-end, we had around $90 billion of private credit AUM. Almost $50 of that was in asset-based finance and $38 billion in direct lending. So these are big businesses for us, I think, probably larger than someone might expect in the framework of KKR.

And you touched on two things. I think first, as it relates to direct lending and overall activity, we are seeing a lot more activity in the leveraged loan, in the high-yield market, and CLO issuance feels like it's picking up. We actually look at all of that as really good for our businesses, and as it relates, a lot of that has been refinancing related. So it's been less new dollars in. But as it relates to new deals, we think that's going to be helpful for mid-market M&A.

And if the private credit markets end up having a lower market share, but of a bigger pie, we think that dynamic is one that can still work really well in the framework of our firm. And in terms of private credit, I think there are lots of advantages that are going to lead to people to continue to use that market.

The point on ABF is a really, really important one, and it relates to the dynamics that you're talking about. So I think as banks pull back from many types of lending and divest non-core loan portfolios, our opportunity set, we think, is just going to continue to expand. And you've actually seen this in recent announcements from us. So two weeks ago, we announced an accounts receivable financing for a barbecue business. I remember you actually sent me an e-mail on this. As I know you were hoping that could lead to nice little trinkets at our next Investor Day.

In December, we announced a partnership with BMO focused on a $7 billion portfolio of RV loans. In October, Goldman announced the sale of its GreenSky platform to a handful of buyers, of which we were part of that consortium. And in August and September, we announced the acquisition of a portfolio of prime auto loans from a regional bank in the Southeast. So I think you're seeing lots of opportunities for firms like ours to participate in asset-based finance in a way that you didn't see five years ago. And it's a really important tailwind, as we think about the growth and opportunities that we see ahead.

Scott Nuttall
Yes, the only thing I would add, Glenn, is we see a lot written about the direct lending market, rightly so. It's become a very large and important market. I think Craig is right. M&A volumes have been down. Private credits had a larger share of a smaller amount of volume. And so as the banks come back, our expectation is you'll see M&A volume pick up, and there'll still be plenty for the private credit market to participate in.

But this ABF business, I don't think is that well understood yet, whereas the direct lending market is probably, roughly $1.5 trillion. The ABF market is probably closer to $5 trillion, on its way to $7 trillion. And it is in, kind of my view, becoming an asset class for institutional investors to understand a little bit. Like 10, 12 years ago, infrastructure and direct lending were very new concepts for most investors. We're having more dialogue on asset-based finance, seeing more investors start to create an allocation or a sub-allocation on private credit.

It's obviously incredibly synergistic with what we're building at Global Atlantic, and we're seeing interest from third-party insurers, as well. And I do think there's a significant amount of growth ahead for that business. We have 20 or so origination platforms around asset-based finance, so far, and I'd expect that number to continue to go up. I would guess, in April, when we're together for the Investor Day, we'll go deeper on that topic.

Glenn Schorr
Thanks. Look forward to the BBQ.

Scott Nuttall
Thanks, Glenn. Us, too.

Operator
Our next question is from the line of Bill Katz with TD Cowen. Please proceed with your question.

Bill Katz
Thank you very much. Good morning, everybody. So maybe just flipping over to the insurance platform, and just sort of adjusting for the solar gain in the quarter – I mean how we should be thinking about the ROE for the platform, given sort of, two parts, one–and now you have 100% of the platform. And two, if interest rates were to go lower, is there enough growth in the business to offset any kind of degradation in net spreads? Thank you.

Rob Lewin
Hey, Bill, all great questions. Thank you. First thing, as we look at Q4 and we look at 2023, very strong performance from the Global Atlantic business. Management team has done a great job, and it's a big reason why we're excited to own 100% of the business. You are right, that in Q4, as well as through 2023, that the P&L did have some tailwinds, some variable investment income on a gross basis, about $35 million in Q4.

At the beginning of the year, we had about 20% of our book, on a net basis, exposed to floating rate. Team did a good job making that adjustment, and so got the benefit of rising rates through much of '23. We ended the year at about 16%. And so as we think about interest rates going down in 2024, we're conscious of that.

In Q4, too, specifically, we made a modest adjustment to our comp. So effectively, had over-accrued a little bit through the course of Q1, Q2, and Q3. So all things that positively impacted the quarter and all things front of mind, as it relates to how we plan for 2024. So as we look at Q4, not necessarily replicable in the near term. But as you said, we have so many levers to be able to grow the GA franchise that our expectation, even in a reducing rate environment, is that GA is going to continue to perform.

As it relates to ROE targets, we continue to think the right level to model the business is at that 14% to 15%, pre-tax ROE. The team has done a nice job being able to beat that and beat that by a healthy margin over the past couple of years. But we are going into an environment here that could be lower interest rates and put a little bit of pressure on the P&L.

Bill Katz
Thank you.

Operator
Thank you. Our next question is from the line of Brian McKenna with JMP. Please proceed with your question.

Brian McKenna
Thanks. Good morning, everyone. So just a question on the capital markets business. I'm curious, how did activity trend throughout the fourth quarter? I'm assuming November and December were better months, just as broader markets rallied quite a bit into year-end. And then has this momentum carried into the new year? And – I'm just trying to get a sense of the jumping off point for capital markets activity levels to start 2024.

Rob Lewin
Yeah, great. Thanks for the question. Obviously, we're really pleased with the performance of our capital markets business in Q4, and really for all of 2023. If you look at Q4 specifically, great quarter – did benefit maybe from a bit of deferrals, some fees that could have been in Q3, that ended up in Q4. You're right, as the markets picked up in November and December, that definitely helped, as well.

But I think the more important point on our capital markets business, really, if you look at 2022 and 2023, through much of both of those years, debt capital markets, equity capital markets were largely shut. And our business still was able to generate, on average, close to $600 million of annual revenue in both of those years. So we're quite proud of the resilience of the business model, the durability of the business model. So it wasn't that long ago, in very healthy market environments, our capital markets business was generating roughly $400 million a year.

And as you also point out, we've got a business that can generate really outsized outcomes, when the markets come back. It wasn't that long ago, 2021, where our capital markets business, in very healthy markets, generated $840 million of revenue. Now, despite the strong Q4, we're not back to those healthy levels of capital markets, deployments. It's still relatively muted across the space. Leveraged finance market feels better, but the CLO market is continuing to get healthy. IPO markets, secondary markets, they continue to trend in an upward way, but not back, anywhere close to where we were in 2021.

Now, as we think about pipelines going into 2024, we're quite constructive, as it relates to Q1 – still very early in the quarter to give you a read. But our pipeline, as we're going into the year, just across the firm, from deployment, the engagement we're having with our third-party clients, we're expecting a constructive 2024.

Brian McKenna
Great. Thanks, Rob.

Operator
Our next question is from the line of Finian O'Shea with Wells Fargo Securities. Please proceed with your question.

Finian O'Shea
Hey, everyone. Good morning. Going back to ABF, a lot of color you provided there. Recently in a presentation, you outlined the ABF origination growth in recent years, seeing if you can touch on the potential for improvement into 2024, and then, what that can mean for the credit fee rate and potentially the capital markets opportunity? Thank you.

Craig Larson
Hey, Fin, it's Craig. Why don't I start there? So we noted in that presentation that, if you look 2018 to 2020, so before the GA acquisition, average annual asset origination was in that $9 billion a year. And if you look post-acquisition, we've averaged $25 billion. Now that is not just ABF, that includes direct lending, that includes mortgage loans, etc.

So I think as we look how we're positioned in growth in activity from here, we think the opportunity for that is one that's going to be able to expand, as it relates from an ABF standpoint, both the insurance relationships that we have, in addition to the capital that we have that's more opportunistic in nature. So I think, again, that outlook for us is one, as we've continued to grow and expand, that we're very positive on, and think could be a real growth engine within the credit business, broadly.

Scott Nuttall
Yeah, the only thing I would add, Fin, is that you're right to ask about the KCM opportunity. As a reminder, when we spoke at the end of November, we talked about all the different positive opportunities we had to unlock more value with GA, including across the rest of the firm, from an investing standpoint, creating new product, private wealth distribution, Ivy, which is our third-party fund strategy, and then global in particular, Asia. And as part of that list, we did talk about the capital markets opportunity. And we do think that that can be quite meaningful for us.

So think of it as, in effect, using the model we've already built with KCM, but more across this ABF platform. We really haven't gotten to that yet. And when we had 37% ownership from third parties, it was a little bit more challenged to get after that. We think, over time, that could be a significant opportunity, call it, in the hundreds of millions of dollars if we can get that right.

It's going to take time. We'll keep you posted on it, but we do think that is the next big leg of growth across all things structured finance, structured credit, asset-based finance for KCM.

Operator
Our next question is from the line of Patrick Davitt with Autonomous Research. Please proceed with your question.

Patrick Davitt
Hey, good morning, everyone. Questions on margin – the FRE margin came in much better than consensus. So firstly, is that mostly a function of the much better capital markets results? And secondly, if so, if this continues into 2024, as you suggest, should we expect a similar incremental, positive operating leverage impact as that line item recovers? Thank you.

Rob Lewin
Hey, Patrick. For quite some time, and we've guided that we feel like we've got a business model that could operate in the low 60s, from an FRE margin perspective. What drove the FRE margin beat in the quarter, is a combination of a few things – healthy management, fee growth, clearly very strong capital markets quarter for us. And then, also some operating expense leverage, as well.

As we move into 2024, with our already announced shift in how we're going to form our compensation pool at KKR, and reducing the compensation load against our fee related revenue, our expectation is, going forward, we're going to be sustainably able to operate in the mid-60% FRE margin zip code, as a firm. And I think I said this last call or the call before, I don't think that mid-60% level is a cap for us, given the business model that we're employing.

We're trying to scale things that we've already started here. And if we're right in our ability to execute on that, we're going to be able to drive revenue growth, fee revenue growth, at a level that's well in excess of expense growth over the next several years. So I do think we should be able to, absent a really draconian type of market environment, operate at that mid-60% FRE margin – quarter in, quarter out – with the potential to be able to drive that up, over time, assuming we're able to execute as a management team like we think we can.

Operator
Our next question is from the line of Steven Chubak with Wolfe Research. Please proceed with your question.

Steven Chubak
Hey, good morning. So two-parter for me, just on the PE fundraising outlook. The closings for the second Next Gen Tech fund, the third Global Impact Fund, certainly encouraging, meaningful

step-ups versus the prior vintages. Does that momentum increase or inform your confidence for the upcoming PE flagship fund raise? Or are these simply too niche and sector specific to offer any sort of read across? And when do you expect to go to market with the funds, given the significant amount of deployment capacity that you still have to work through?

Craig Larson
Hey, it's Craig. Why don't I start? Look, I think, again, as it relates to the deployment capacity, the numbers are going to be understated, given platforms or platform investments we've made, etc. So I don't think the dynamic is, one, as it relates to deployment, I think, in particular, as we look at our pipelines, which are building and actually expect across the industry to see deployment increase in '24, as it relates to '23.

And I think, as it relates to your first question, in terms of overall tone – look, I think as a starting point, we've seen a nice increase in public markets. We've seen broad markets improve since mid-October, to say the least. High yield indices are up, LSTA is up. And I think, in addition to that, we've all seen the increase in the capital markets. And so I think, given that backdrop, as it relates to fundraising and tone, I think, like if anything, on balance, it feels like clients are more front-footed.

And again, it's tough to draw broad conclusions from one-month of activity. And we'll see how things continue to play out from here. But, given our track records, the performance that we've had, in particular, in a business for us, like Americas private equity, over a long, long period of time, I think we feel very good about the opportunities that we see as we embark upon fundraising for that strategy.

Scott Nuttall
Hey, Steven, it's Scott. To your question about read across – I don't think it's a stretch to say that it does inform our broader perspective. Much of the funds that you mentioned were raised at a period of time where the capital markets weren't nearly as robust. And what we've seen is that investors are re-upping the funds where they've seen strong performance. Also, the color from the dialogue we're having is, I think, even more mature programs out there understand these are going to be very good vintage years and don't want to miss out.

I think in the past, if you go back to the financial crisis, there are some institutions that pulled back, and then had regret. And so I think there's an understanding of that in the market. And that's on the more mature programs, which I would say the minority of the people that we talk to. If you think about how the industry has expanded across sovereign wealth funds, insurance companies, family offices, obviously, we talked about the private wealth channel – we're optimistic. But, in some part are based on those discussions and, in large part, based on the great work our team has been doing, in terms of keeping the investment performance very strong.

Steven Chubak
That's great color. Thanks for taking my question.

Operator
Our next question is from the line of Brian Bedell with Deutsche Bank. Please proceed with your question.

Brian Bedell
Great. Thanks. Good morning, folks. Thanks for taking my question, also. Maybe just to focus back on capital markets and maybe more of the longer-term view. So, if you think about it from more of a structural basis, in terms of your current dry powder, but also the deployment pipeline over the next few years from your flagship fundraising cycle, and then you mentioned the ABF opportunity, as well, over the long term.

So as we think about that and building out to 2026, not to put a number on it, but is it fair to assume you could easily be well over $1 billion in capital markets fees by then, even without a particularly robust capital markets environment? And in terms of your $4.50 per share cost target, should we be thinking of, maybe a more robust environment as you're driving the plus in that equation, as opposed to the baseline of $4.50?

Rob Lewin
Hi, Brian. It's Rob. I'll start off. So we really like our business model and our approach to market, with our capital markets business, and I think that's a big reason why there's a lot of upside. And the way we face the market, really, is with one team that represents our private credit pools of capital, where we're one of the largest providers in the world; our capital markets expertise, it's that same team when they're facing a client, that can wall cross our liquid credit business, which is one of the biggest liquid credit businesses in the world.

And so we combined three very large aspects of our business, and we think that's a real benefit to our clients. And there's not a lot of firms out there that can match what we do, from a coordination perspective. I like our ability to go compete for talent in the capital markets space. We've been able to recruit and retain. Over the past number of years, some really talented people at what they do, and especially as we've expanded in product and geography, that's a big part of our story, and I can see more of that.

You referenced what types of upside we have. I think, if you look back to 2021, of course, we had a buoyant capital markets at the time. But KKR does a lot more, as a firm today, both from a product perspective, deployment perspective, and geographically, than we did then. We think we're going to continue to be able to take share with third-party clients.

And Scott just touched on the opportunity to coordinate with Global Atlantic and the opportunity that that can create on the ABF side. And so no specific numbers – excuse me, on the ABF side of KCM. No specific numbers, of course, as it relates to 2026, but we think this is a growth-oriented business. And we think in a really good capital markets environment, we're going to be able to grow off of that $840 million revenue number that we put up in 2021.

Scott Nuttall
Hey, Brian, it's Scott. Look, I think we'll go deeper on this in April, when we're together. But the way we think about it, if you look back five years, it's really not very representative of what KCM is today and where it's going to be, to your point. So we've been globalizing the business across more of what KKR is doing around the world. We've been penetrating more of our own strategies and efforts.

So for example, if you go back several years, infrastructure wasn't a very big part of the capital markets business. Now it's a very large part of that business. And that informs our perspective on the ABF opportunity, candidly, the real estate opportunity, over time. And then, on top of that, our portfolio is larger. So there's more refinancing. There's more exits to do in the public markets.

And as our deployment goes up, in our experience and our dry powder goes up, so do our capital markets opportunities. Because we can speak for larger transactions, we need to bring partners alongside, there's just more for us to do. So all of that speaks to the growth opportunity, which is why I think you're seeing this baseline, even in a pretty anemic capital market overall, continue to increase. And I think you'll continue to see that into the future as we execute on all of those fronts.

Brian Bedell
Great. That's helpful. Thank you.

Operator
Next question is from the line of Benjamin Budish with Barclays. Please proceed with your question.

Ben Budish
Hi. Good morning. Thanks for taking the question. I just wanted to check – I think you didn't mention in the prepared remarks – but can you share any color on your line of sight towards realization and related revenues into Q1? It sounds like, on the capital market sides, things are looking pretty strong. But just wondering, on the realization side, anything you can share to date? Thank you.

Rob Lewin
Hey, Ben. So we have a pretty healthy pipeline as we're coming into 2024, from a monetization perspective. But what I'd say is, timing is a little bit less certain, given some regulatory approvals that are required around some of these monetizations. But taken together, we have somewhere around $500 million of very high visibility, monetization-related revenue. But we currently don't expect all that to hit in Q1. Obviously, still a couple of months to go in the quarter, as well. And as usual, at the end of Q1, we'll provide our standard press release that gives you more detail around the monetization-related revenue for the quarter.

Maybe while we're on the topic of monetization, one other thing that I think is worth calling out, given the growth across a number of our businesses, and also the strategic announcements that we made in November, including moving our comp down on fees and up on carry, this is just a much smaller part of our business than it used to be at KKR.

It's part of the reason why you'll see us introduce this new metric in Q1, total operating earnings. Our expectation, going forward, is north of 70% of our earnings is going to come from total operating earnings. So of course, monetization-related revenue is going to be a big part of where we're going as a firm. It's just a lot smaller, on a relative basis, than it used to be.

Ben Budish
Got it. Very helpful. Thanks, Rob.

Operator
Next question is from the line of Mike Brown with KBW. Please proceed with your question.

Michael Brown
Great. I just wanted to ask on infrastructure. So strong performance there in the quarter. Can you maybe just expand on some of the key drivers behind that 5% performance in the quarter? And then, if we look forward, how do you expect investor demand for this asset class to evolve? And as allocations grow, where are the dollars kind of shifting from? And then, specifically, on the Asia side, what's kind of making the strategy there so attractive to LPs – if you could maybe just touch on some of the deployment opportunities?

Craig Larson
Why don't I begin? Mike thanks for the question. Why don't I begin first, just as it relates to the overall framework of the infrastructure platform, because, you're right, we've seen wonderful growth. So if we look back three years ago, AUM was $17 billion. And at 12/31, we were at about $60 billion. So we've gone from $17 billion to $60 billion, all organic.

And that’s as we're – again, our infrastructure strategy is a front-burner topic for us, as it relates to fundraising. We're also fundraising for a climate strategy. And we also have the wealth products that we've also launched midway through last year, that we expect to continue to build in scale.

So I think the growth has been really attractive and a lot of momentum. But there’s a lot more for us to do, which is exciting. I think as it relates to Asia, and why don't I touch on that for a moment, it's again, interesting to see the statistics there. Because I think what you're seeing there, reflects the growth, as well as the diversification you're seeing across the platform. So at the end of 2019, we were looking at these stats over the weekend, we had about $21 billion of AUM in Asia, at the end of '21, we were up to $42 billion, and at the end of '23, we're at $65 billion.

And so again, if you kind of step back, at the end of 2019, we had $21 billion of AUM. Almost 90% of that was in private equity. At the end of '23, we're at $65 billion, and 51% of that is in private equity. So you've seen meaningful growth for us in the region, as well as meaningful diversification across the footprint. And I think, just as it relates to broad investment performance, I think it's something that the team is really proud of, and we all love to see, obviously, because you've seen strong, consistent results, across the flagships, in particular.

We're seeking mid-teens gross, low-teens net returns with a 4% to 6% target, annualized yield. Infra I and II, our mature funds with performance that exceeds those targets. And Infra III and IV are both earlier in their value creation, but are tracking very nicely. I think our most recent fund is actually ahead of I, II and III, when you look at the returns in that fund, relative to when we made that first investment.

So I think the team has been wonderfully disciplined, as it relates to the investments we've made. We talk a lot about thematic approaches, renewables, digital infrastructure, data centers, fiber networks – all great examples of large, critical growing markets, where we think we can bring differentiated resources to bear. So again, a lot of progress, but a lot of opportunity ahead for us at the same time.

Scott Nuttall
Hey, Mike. It's Scott. Just, I think in terms of your question about performance in the quarter, it was broad-based. There's nothing that we'd point you to specifically. The portfolio has been assembled incredibly thoughtfully, as Craig mentioned, and is performing very nicely, and as expected – ahead of expectations.

In terms of your question about investor demand, where it's shifting from – I mean, for the most part, we've seen people creating allocation to infrastructure over the last several years. It hasn't really been a shift out of other parts of alternatives, to some extent, where we've seen alternative allocations increase. It's to be able to accommodate an infrastructure allocation.

And I think a lot of that is investors have focused on the fact you've got a real asset that is mission critical, has an attractive yield. And the way we do it, is to have to have that contractual yield and it is inflation protected, so it's also viewed as an inflation hedge. And I think as people have done the work on the space, you've started to see more and more dollars flow into it. So largely speaking, and none of these comments are universal, but largely speaking, it's been an and as opposed to an or.

And I think on Asia, Craig hit it. I mean our Asia Infra business has gone from a standing start to $10 billion of AUM in four years. We have a great team on the ground. They're leveraging our Pan-Asia presence across our nine offices. And as you know, we run the firm as one firm, so everybody helps each other. I think that's really allowed us to scale very rapidly in that market.

There's a significant amount of capital required to develop infrastructure all across Asia, in those themes that Craig just walked you through. And candidly, on the margin, there's less competition in Asia, because fewer firms have built the platform that we've built. So I think large opportunity, fewer competitors, firm well integrated.

Mike Brown
Thank you, both, for all the great color.

Operator
Our next question is from the line of Michael Cyprys with Morgan Stanley. Please proceed with your question.

Michael Cyprys
Great. Thanks. Good morning. Just wanted to ask about insurance. I was hoping you might be able to talk about the opportunity to expand the organic insurance origination, how much you expect to do annually there. Maybe talk about some of the opportunities around getting on more platforms, how meaningful could that be, at this point.

And if interest rates were to come down, what sort of impact might that have for customer demand and origination volumes? And maybe you could also speak to some of the pipelines from new blocks, which you guys have been quite active with.

Rob Lewin
Thanks for the question, Mike. Why don't I start? So over the last few years, our individual business has done, on average, around $10 billion of production. And you're right, you've seen a step-up across the industry, given, I think, higher rates. But I don't think that tells the full story.

I think what we're seeing is a real trend towards retirement products. It's probably somewhat agnostic to where interest rates are. And as we think about Global Atlantic and how we're situated specifically in the individual markets, I think there's a lot of share that we continue to take there, getting ramped up on some new platforms, as you suggested. Also historically, Global Atlantic hasn't been as active in the more longer duration, fixed annuity market, the 7- to 10-year product. We think there's some market share gains that we can have there.

And we do have an expectation that we could take the individual business, over time, from $10 billion of production to $15 billion to $20 billion of production. Then on the institutional side of our business, there's three components of it. It's not just the block business, where we've had a lot of success over the last couple of quarters. Clearly, with MetLife closing in Q4, the Manulife block closing in the first half of the year, and a really strong pipeline of opportunity, both domestically and especially internationally.

But there's a couple of other aspects of our institutional business that we're really excited about. We've become a real leader in flow reinsurance in the marketplace. Again, that's both domestic and international. And to date, we have very little market share in the pension risk transfer market, where we think the capabilities of our team will really resonate in that market, as well.

So it's an opportunity for us to take share in what is a large and growing end market. And so when we take it together, it's what gives us the confidence that you would have heard in our November call, really working as one firm, to be able to accelerate the growth of the Global Atlantic platform over the next several years.

Now an important part of that growth, and I referenced it in our prepared remarks, relates to our ability to also be able to access third-party capital. And so our Ivy funds and strategies is a big part of where we're going as an organization. We've got a lot of momentum there. As I mentioned earlier, 75% of the capital required in the two block deals that we've got in flight right now, the MetLife one that just closed and Manulife, is going to be funded by third parties, by outside investors. And we think that combination of GA balance sheet capital and third-party investors is really what the optimal structure looks like, especially for the institutional side of our business, going forward.

Michael Cyprys
Great. Thank you.

Operator
The next question is a follow-up from the line of Bill Katz of TD Cowen. Please proceed with your question.

Bill Katz
Great. Thanks, so much. I just want to circle back to capital management for a moment. Certainly appreciate you just raised the dividend by 6%. But if I start doing the math and look out to $4.50 of earnings power – and Rob, to your point, that more and more of your business is going to be more recurring in nature, and then just sort of think about sort of low single-digit type of dividend hikes that's been sort of more recent past – your dividend payout ratio is going to drop pretty dramatically, and then the yield on the stock is going to be relatively negligible.

How are you thinking about cap return? I know there was a big discussion point at the November update. It's a rich man's issue, I presume. But how do we think about, maybe priorities from here – capital return versus deployment, strategically?

Rob Lewin
Sure. Thanks, Bill. So why don't I start on the dividend policy, and then just, I think, more importantly, talk about our overall approach to capital allocation, which is of equal importance. So on dividend policy, we really, really like our policy a lot. We started with a fixed dividend of $0.50 annually, when we converted to a C Corp five years ago. And every year, we have increased that dividend. And we believe we've got the visibility, going forward, to have consistent and stable growth to our dividend. And so we like our dividend policy.

Now a big reason why we have the dividend policy that we have, is because we see so much opportunity to be able to invest back into KKR's business for growth. And you've heard us talk about our capital allocation policy for some time, in a very consistent way. And I don't think there's anything more important, from the capital allocation policy, than being consistent. And our approach is to optimize for recurring and growth-oriented earnings per share.

And we've talked about four, core areas, strategic areas of deployment from our excess free cash flow, back into our business. And those are going to come in insurance, Core Private Equity, strategic M&A, and share buybacks. And so, I think we feel very fortunate, that because of the business model we have, the brand we have, the access to capital we have and distribution, that we've got the opportunity to be able to invest back into our business at high levels of ROE, that are going to drive really recurring and growth-oriented earnings per share, over a long period of time for our investors.

So that’s our focus. We feel really good about our approach to capital allocation. I think it's a real core competency of our management team, and think that that's what's going to drive the highest amount of ultimate shareholder accretion for a long period of time. And of course, it's very much a highly aligned decision, since the management team of KKR own 25%-plus of the stock.

Operator
Okay. Thank you. We've reached the end of our question-and-answer session. And I'll turn the call over to Craig Larson for closing remarks.

Craig Larson
Rob, thanks for your help. And thank you, everyone, for joining this call. We know that with our announcements that we made in late November, earnings today, and with Investor Day on the horizon, on April 10th, we're asking everyone to spend a healthy amount of time on all things KKR.

Just want to thank everybody, in advance, for investing the time. Look forward, again, in particular to the deep dive on April 10th. And if you have any questions following this call, please, of course, reach out to us directly. Thank you so much.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.